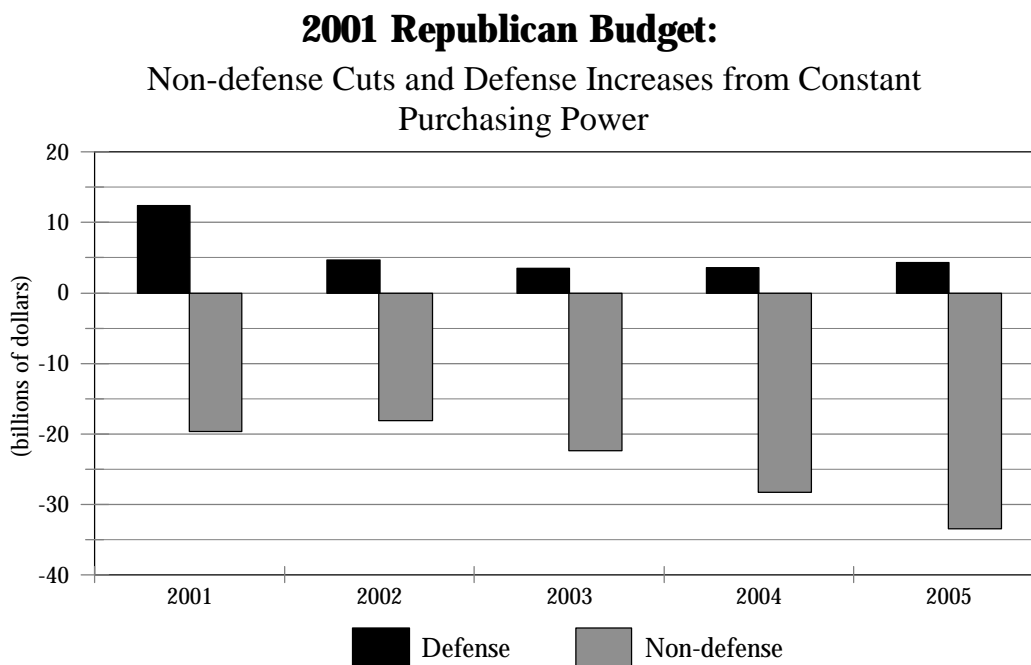


## Appropriated Programs

Appropriated programs, also known as “discretionary” programs, are those controlled by the annual appropriations process. The conference agreement on the Republican budget resolution requires unrealistic cuts in non-defense appropriations — cuts that Republican Congresses have been unable or unwilling to make in the past — in order to provide \$175 billion in tax cuts over the next five years. If Congress provides these tax cuts but cannot make these cuts to domestic programs, the Republicans will spend the Social Security surplus and will reduce publicly held debt much less than the alternative budget offered by House Democrats. Reducing debt helps ensure that the government has the resources needed to fund Social Security and Medicare when the Baby Boom generation retires. In short, premising large tax cuts on unrealistic spending cuts makes the conference agreement a fiscally unsound and risky budget blueprint.

### Deep Cuts to Non-Defense Appropriations

The conference agreement provides for slightly more than zero real growth for defense, which increases by 1.3 percent in real (inflation-adjusted) terms by 2005 (see *Function 050: National Defense* for further discussion). In contrast, as the table on the next page indicates, the conference agreement makes deep cuts in non-defense appropriations, which decrease by 9.8 percent in real terms by 2005. The graph below shows how much the conference agreement cuts non-defense programs from the level needed to maintain constant purchasing power for 2001 through 2005, and contrasts these cuts with the increases for defense.



**Non-defense Discretionary Comparison:  
Conference Agreement on Republican Budget Resolution  
Loss or Gain in Real Purchasing Power**

	Conference Agreement Republican Budget Resolution		Percent Above (+)/Below (-) Current Services	
	(In Billions of Dollars)		Percent	Percent
	2001	2005	2001	2005
150 International Affairs				
Budget authority	20.0	20.4	-12%	-17%
Outlays	22.3	19.7	2%	-17%
250 General Science, Space				
Budget authority	20.2	21.0	3%	-0%
Outlays	19.4	20.4	1%	-1%
270 Energy				
Budget authority	3.0	2.7	-2%	-14%
Outlays	3.0	2.7	-2%	-14%
300 Natural Resources and Environment				
Budget authority	24.2	24.4	-2%	-11%
Outlays	24.1	24.2	-1%	-10%
350 Agriculture				
Budget authority	4.5	4.6	-2%	-9%
Outlays	4.5	4.5	-1%	-10%
370 Commerce and Housing Credit				
Budget authority	2.6	3.0	-68%	-67%
Outlays	3.0	2.9	-62%	-67%
400 Transportation				
Budget authority	15.8	17.0	6%	2%
Outlays	48.5	54.0	2%	1%
450 Community and Regional Development				
Budget authority	9.2	8.6	-21%	-31%
Outlays	11.4	8.7	-3%	-29%
500 Education and Training				
Budget authority	56.8	60.8	3%	2%
Outlays	52.3	59.0	-1%	0%
550 Health				
Budget authority	34.8	36.9	1%	-1%
Outlays	32.8	35.7	-4%	-2%
570 Medicare				
Budget authority	3.1	3.1	-2%	-15%
Outlays	3.1	3.1	-2%	-14%
600 Income Security				
Budget authority	35.3	39.6	-14%	-17%
Outlays	42.1	44.1	-1%	-8%
650 Social Security				
Budget authority	3.4	3.6	3%	-3%
Outlays	3.3	3.6	1%	-2%
700 Veterans				
Budget authority	22.1	24.1	2%	-1%
Outlays	21.9	23.9	2%	-1%
750 Administration of Justice				
Budget authority	26.9	28.9	-2%	-6%
Outlays	27.2	28.7	-2%	-6%
800 General Government				
Budget authority	12.8	12.4	-2%	-16%
Outlays	13.0	12.4	-3%	-14%

## **Firewalls Resurrected**

The conference agreement also reestablishes “firewalls” between defense and non-defense appropriations for 2001. A “firewall” is a separate set of limits on defense and non-defense appropriations so that Congress cannot cut one account to offset an increase to the other account. The firewall is enforced by a Senate point of order applicable to any appropriations bill that breaks the firewall. This firewall reduces the flexibility of the Appropriations Committees to enact realistic levels of appropriations, especially for non-defense programs, because of the deep non-defense cuts assumed in the conference agreement.

## **The Supplemental Illustrates the Implausibility of the Republican Budget**

Five days after the House first passed the budget resolution, it passed a 2000 supplemental appropriations bill that broke the spending levels set in the budget resolution by \$4.1 billion. The supplemental appropriations bill, which totaled \$12.6 billion, was triple the President’s supplemental request.

A major reason this supplemental was so large was that it sought to circumvent the House resolution’s limits on 2001 appropriations by paying for some 2001 items, both defense and non-defense, with 2000 funding. This use of the supplemental indicates that the Appropriations Committee will indeed have trouble living within the constraints of the conference agreement on the budget resolution, since the conference agreement requires cuts in non-defense appropriations for 2001 and assumes even deeper cuts in later years.

The final budget resolution provides \$175 billion in tax cuts over five years based on the assumption that it can cut the constant purchasing power of non-defense appropriations by \$121.5 billion in budget authority and \$101.6 billion in outlays over five years. But if congressional Republicans enact the tax cuts and fail to cut non-defense programs by these large amounts, then the Republicans will be forced to spend the Social Security surplus to cover the cost of appropriations. The supplemental is early, tangible proof that the Republicans will exceed the appropriation levels in the budget conference agreement.

The conference agreement on the Republican budget resolution effectively reduced the supplemental to \$5.1 billion, which is \$650 million (15 percent) more than the President’s request. To accommodate the supplemental, the conference agreement increased the defense level for 2001 (see *Function 050: National Defense* for further discussion), but not the non-defense level. Whether the final supplemental bills will exceed the levels in the conference agreement remains to be seen.

## **Examples of What These Cuts Will Mean**

As in 1998 and 1999, the Congress is unlikely to make the cuts required by the conference agreement. However, it is worth taking the conference agreement at face value and considering the impact of the cuts if they are actually enacted. They will wreak havoc on many programs, including the following examples:

- Providing Pell Grants to 316,000 fewer low-income students by 2005;
- Eliminating Head Start services for more than 40,000 children by 2005;
- Cutting funds to clean up 40 Superfund sites by 2005;
- Cutting 600 FBI agents and 500 Drug Enforcement Administration agents by 2005;
- Cutting the Community Development Block Grant, Rural Community Advancement, Empowerment Zones, and Economic Development Assistance programs by almost one-third by 2005, even though Congress has historically rejected significant cuts to these programs; and
- Cutting energy research by 29 percent by 2002 even though the recent rise in oil and gasoline prices underscores the need to develop alternative energy sources.

## **Masking the Cuts**

The conference agreement attempts to mask its large cuts to non-defense appropriations in several ways. First, the conference agreement contains unspecified cuts totaling \$22.2 billion over the 2001-2005 period in Function 920, an obscure “catch-all” function that the Republicans have used in the past to assume cuts without having to specify where the cuts fall. Thus, non-defense programs are likely to be cut an average of almost \$4.5 billion per year more than the individual functions indicate.

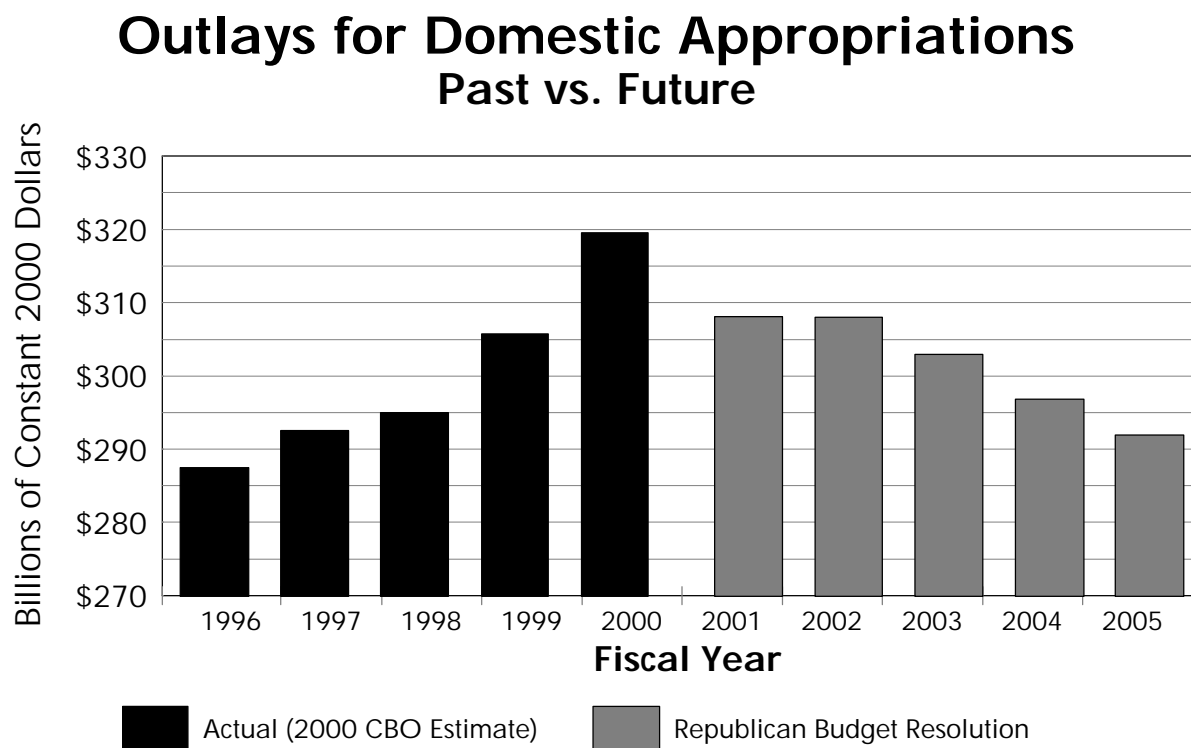
Second, as the “Non-defense Discretionary Comparison” table on page 40 indicates, the conference agreement targets several less politically popular functions, such as International Affairs, Energy, Community and Regional Development, and General Government, for disproportionately large cuts in order to spare politically popular functions from severe cuts. However, to the extent that Congress does not make the disproportionate cuts to the less politically popular functions, the popular functions that appear to be “spared” will not be.

Third, some Members may claim that since the conference agreement keeps many non-defense programs slightly above a 2000 freeze level over five years, it does not cut non-defense appropriations. This is a specious argument. First, non-defense funding is below the freeze level in 2001. Second, a freeze level by definition cuts the purchasing power of programs, and these cuts compound over time. The truth is that the conference agreement cuts the purchasing power (as measured by outlays) of most non-defense appropriation functions by 9.8 percent in 2005. This translates into a \$121.5 billion cut in real purchasing power over five years in non-defense appropriations.

## History Underscores the Implausibility of the Republican Budget

As the graph below illustrates, non-defense programs have increased faster than inflation every year over the last five years (1996-2000), but the conference agreement assumes an about-face by cutting these same programs deeply over the next five years. It assumes these unrealistic cuts in order to accommodate large tax cuts. If the tax cuts are enacted but these unrealistic cuts are not realized, on-budget deficits will resurface and Congress will tap into the Social Security surplus.

Here are some facts to bear in mind when evaluating the plausibility of the funding levels in the conference agreement for non-defense appropriations:



- As the graph above illustrates, from 1996 through 2000, the Republican Congress has increased non-defense spending by an average annual rate of 2.5 percent in real terms. (Note: This is the same annual average rate of increase as the Democratic Congresses in the 1990-1994 period.)
- The annual real (inflation-adjusted) rate of growth for non-defense appropriations since 1962 has been 2.8 percent. This positive rate of real growth occurred despite annual budget deficits during most of this period.

- Since 1987, there has been only one year, 1996, in which non-defense outlays did not record a real increase.
- The House-passed versions of the 2000 appropriations bills exceeded the 2000 budget resolution by \$30.7 billion even before these bills reached the President's desk. This refutes the claim of some Members that the appropriations bills have only increased under a Republican Congress because of a Democratic President.

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### ***Discretionary Spending As a Percentage of Gross Domestic Product (GDP)***

According to the non-partisan budget watchdog group, the Concord Coalition, “as a share of GDP, non-defense discretionary spending is now at its lowest level since LBJ announced his ‘Great Society’ program in 1965.” Under the conference agreement, non-defense discretionary spending as a percentage of GDP drops from 3.3 percent in 2000 to 2.8 percent in 2005. Historical records of government spending do not exist in sufficient detail to indicate the last time non-defense appropriations comprised such a low percentage of GDP.

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History teaches us that Republican Congresses have been unwilling to hold non-defense spending to zero real growth. In fact, as the graph indicates, the rate of growth of non-defense appropriations is accelerating, not declining, under Republican Congresses.

### **Conference Agreement Ignores the Caps on Appropriations**

The 1990 bipartisan Budget Enforcement Act imposed statutory dollar limits or “caps” on budget authority and outlays for appropriations for the years 1991 to 1995. It created a “sequestration” mechanism to make across-the-board cuts automatically if, at the end of each session of Congress, OMB determined that Congress had breached the caps. The discretionary caps were extended through 1998 when President Clinton's first budget was enacted in 1993, and the Balanced Budget Act of 1997 (BBA) revised and extended these caps through 2002. The discretionary caps, in conjunction with the “pay as you go” (PAYGO) rules for mandatory programs, were the primary tools of fiscal discipline that led the federal budget from chronic deficits to the current forecast of ongoing surpluses.

This year, both Republicans and Democrats agree that the existing caps are unrealistic. The President's 2001 budget proposes a new set of caps through 2010 that approximates what is necessary to keep appropriations at a zero real growth level (the level needed to preserve purchasing power by staying even with inflation). While there is not a bipartisan agreement on an appropriate level of appropriations, it is noteworthy that the Republican conference agreement on the budget resolution breaks the existing caps yet fails to call for new and extended caps. This omission suggests that the Republicans themselves may not consider their appropriations cuts to be realistic.

Under Senate rules, budget resolutions and appropriations bills which exceed the annual caps on

appropriations are subject to a point of order on the Senate floor. Senate rules require 60 votes to waive a point of order. This point of order creates a procedural hurdle for Congressional Republicans because they plan to allocate \$600.3 billion for appropriations for 2001, a sum that exceeds the 2001 funding cap by \$59.2 billion.

To avoid the Senate point of order while portraying the budget resolution at the \$600.3 billion level, the conference agreement includes \$64.7 billion of unspecified cuts in Function 920. Republicans do not intend to impose cuts of this magnitude.<sup>9</sup> Instead, the cuts are included to permit Republicans to avoid the point of order by claiming they are in technical compliance with the caps while taking credit for funding above the caps. Since the caps are set in law, it will take a bill passed by Congress and signed by the President to increase or waive the caps. Sometime during the appropriations process this year, Republicans are likely to include a provision in a bill they send the President which will raise or waive the 2001 spending caps.

### **Summary of Republican Appropriations: Unrealistic and Unsound**

Last year's Republican budget plan proved unworkable when Congress could not cut non-defense programs nearly as much as the plan assumed. Just as it did last year, this conference agreement sets unrealistically low levels for non-defense appropriations and, just as it was last year, this conference agreement is thus fiscally unsound.

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<sup>9</sup> The conference agreement includes \$5.5 billion in unspecified cuts it does intend to make, and \$59.2 billion in cuts it does not intend to make.